

MEMORANDUM

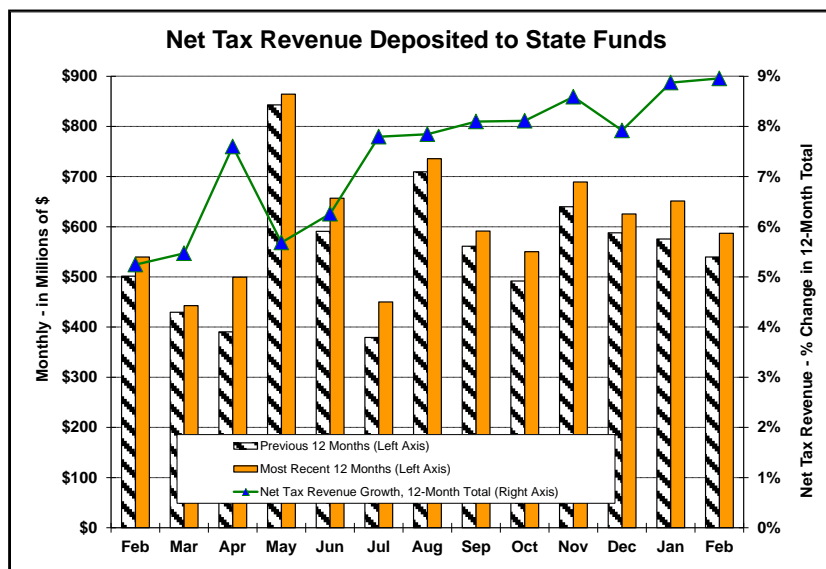
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: March 27, 2013

Twelve-month Total Net Tax Receipts Through February 28, 2013

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending February 2013 with comparisons to the previous twelve months. February 2012 to February 2013 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

While net tax receipts grew a healthy \$47.2 million (8.7%) in February, \$42.2 million of that gain was in individual income tax, and individual income tax was artificially high due to a delay in the start of the tax filing season. The most recent 12 months produced 9.0% net revenue gains, with individual income, corporate income, and sales/use taxes all posting significant annual increases. At 9.0%, the annual net tax revenue growth rate is higher than any time since April 2008 (9.2%).

Month of February Comparison

February net tax receipts totaled \$587.0 million, an increase of \$47.2 million (8.7%) compared to February 2012. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$42.2 million, 27.3%) – Gross income tax deposits increased \$31.2 million in February while individual income tax refunds issued decreased \$11.0 million. January and February 2013 income tax transactions were heavily influenced by the timing and result of the recent federal debate concerning income tax rate changes. The U.S. Congress enacted significant changes January 1, 2013. The uncertainty surrounding that legislation caused taxpayers to remit larger income tax estimate payments than normal. The uncertainty also caused federal tax return filing to be delayed, and this in turn delayed State filings. As a consequence, very few individual income tax refunds were issued in January and February 2013 compared to a normal year. The filing issues will only get larger in March as farm tax returns, normally due March 1, have been delayed until April 15.
- Sales/Use Tax (positive \$11.1 million, 3.9%)
 - Road Use Tax Fund use tax (fee for new vehicle registration) increased \$3.2 million.
 - Gross General Fund sales/use tax receipts increased \$5.2 million (1.8%). Regular sales tax refunds decreased \$3.0 million. School infrastructure transfers out increased \$0.4 million in February.
- Corporate Income Tax (negative \$5.0 million, - 27.6%) – Deposits of corporate income tax receipts increased \$0.7 million in February, while corporate tax refunds increased \$5.7 million.
- Fuel Tax (negative \$0.2 million, - 0.6%) – Gross fuel tax deposits decreased \$0.7 million for the month while tax refunds decreased \$0.5 million.
- Cigarette and Tobacco Taxes (negative \$3.5 million, - 23.3%) – Cigarette wholesalers purchase cigarette stamps and remit the tax in large periodic transactions and the large increases and decreases in recent months are likely just an issue of wholesale purchase timing.
- Gambling Tax (positive \$1.3 million, 5.0%).

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending February 2013, net revenue from all taxes deposited to State funds totaled \$7.344 billion, an increase of \$603.7 million (9.0%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$340.7 million, 11.6%) – Individual income tax continues to post large year-over-year annual growth. The month of February 2013 contributed significantly to the annual growth rate through a decrease in individual income tax refunds issued, an issue that will reverse in March and April.
- Sales/Use Tax (positive \$126.2 million, 5.5%) – Sales tax receipts continue to post very good gains, both for the General Fund and for the Road Use Tax Fund (vehicle sales).
- Corporate Income Tax (positive \$106.6 million, 32.6%) – Corporate income tax revenue has shown significant strength since May 2011, but the last three months have posted negative results.

- Fuel Tax (negative \$1.2 million, - 0.3%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold decreased 5.0% while taxable diesel sales increased 0.2%. Taxable total gallons have now decreased in each of the past seven months and 15 of the past 18, when compared to the same month the prior year. Taxable diesel sales over the most recent 12-month period are 4.0% lower than the March 2008 peak diesel sales level.
- Gambling Tax (positive \$9.0 million, 3.1%) – According to Racing and Gaming Commission statistics, 11 of Iowa's 18 casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12-month period ending February 2013. The combined AGR growth for the 18 facilities was positive 0.2% over the previous 12-month period. Across all facilities, the AGR for the most recent 12 months totaled \$1.449 billion. The annual AGR total has now declined in three consecutive months and is now 1.4% below its November 2012 peak.
- Real Estate Transfer Tax (positive \$4.5 million, 30.6%) – Annual real estate transfer tax receipts peaked in June 2006 at \$19.2 million and bottomed in May 2010 at \$12.8 million. As of the end of February, the annual total of Real Estate Transfer tax deposits for the first time exceeded the previous peak.
- Cigarette and Tobacco Tax (positive \$2.0 million, 0.9%).

Tax Spotlight – Real Estate Transfer Tax

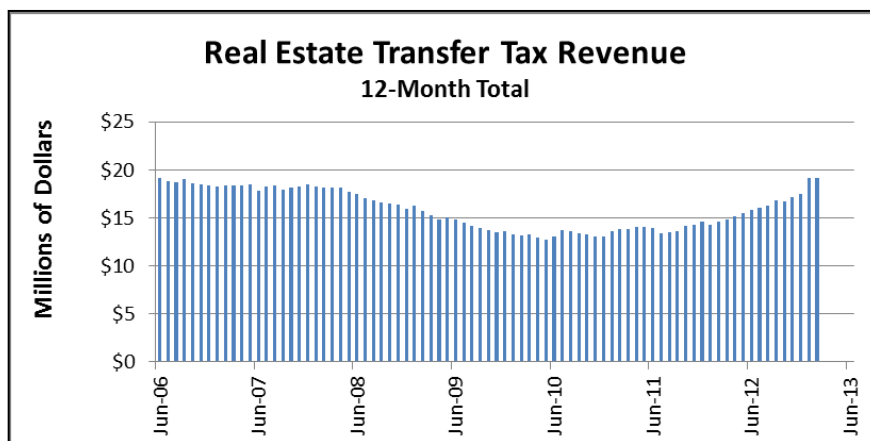
The transfer of real estate is taxed under the authority of [Iowa Code chapter 428A](#). The tax was first effective July 1965, and the current tax rate was effective beginning July 1991. The tax rate is \$0.80 per \$500, including any fractional part of \$500, of consideration paid for real property transferred.

The real estate transfer tax is payable when the instrument conveying the real property is presented for recording. The tax payment is noted on the instrument (usually a deed) of transfer at the time the instrument is recorded. The county recorder must file tax returns with the State Treasurer by the tenth day of each month for tax collected during the preceding month.

The county retains 17.25% of the real estate transfer tax collected. Of the remaining 82.75%, 75.0% during FY 2013 is deposited to the State General Fund, 20.0% to the Housing Trust Fund, and 5.0% to the Shelter Assistance Fund. The real estate transfer tax dollars reflected in this report do not include the portion retained by counties. For the 12 months ending February 2013, the State collected \$19.2 million from the real estate transfer tax, with \$14.7 million of that amount deposited to the State General Fund and the remainder to the housing and shelter assistance funds.

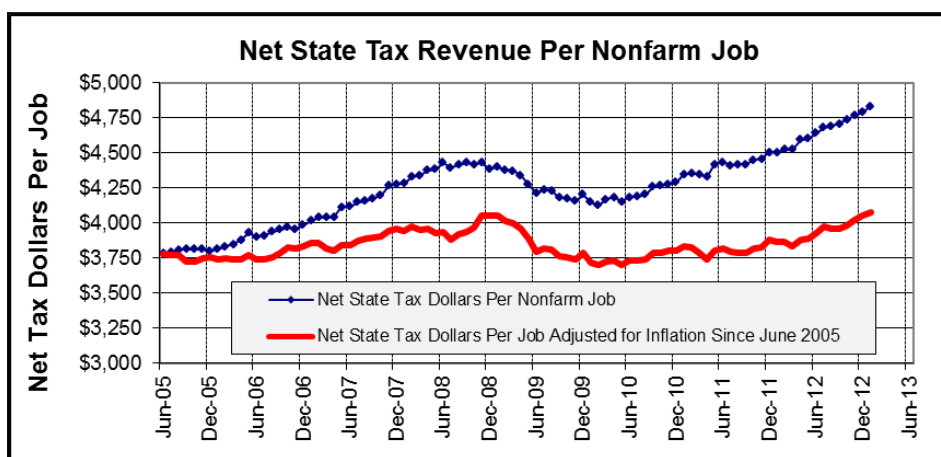
During the 2008 Legislative Session, enactment of SF 2432 (Infrastructure and Capital Projects Appropriations Act) created and added the Housing Trust Fund to the distribution formula. As a result of this legislation, the General Fund portion of the Real Estate Transfer Tax percentage is being reduced five percentage points annually until FY 2015 when the percent deposited will be 65.0%. The Housing Trust Fund will receive the Real Estate Transfer Tax amount reduced from the General Fund. The distribution to the Shelter Assistance Fund will not be impacted.

The Shelter Assistance Fund is administered by the Iowa Finance Authority (see [Iowa Code section 16.41](#)). Money in the Fund may be used for rehabilitation, expansion, or operating costs of group home shelters for the homeless and domestic violence shelters. Of the moneys in the Fund, at least \$546,000 must be spent annually on homeless shelter projects. The Housing Trust Fund is administered by the Iowa Finance Authority ([Iowa Code section 16.181](#)). Money in the Fund is to be used for the development and preservation of affordable housing for low-income residents within the State and for the Iowa Mortgage Help initiative.



Tax Revenue and Employment

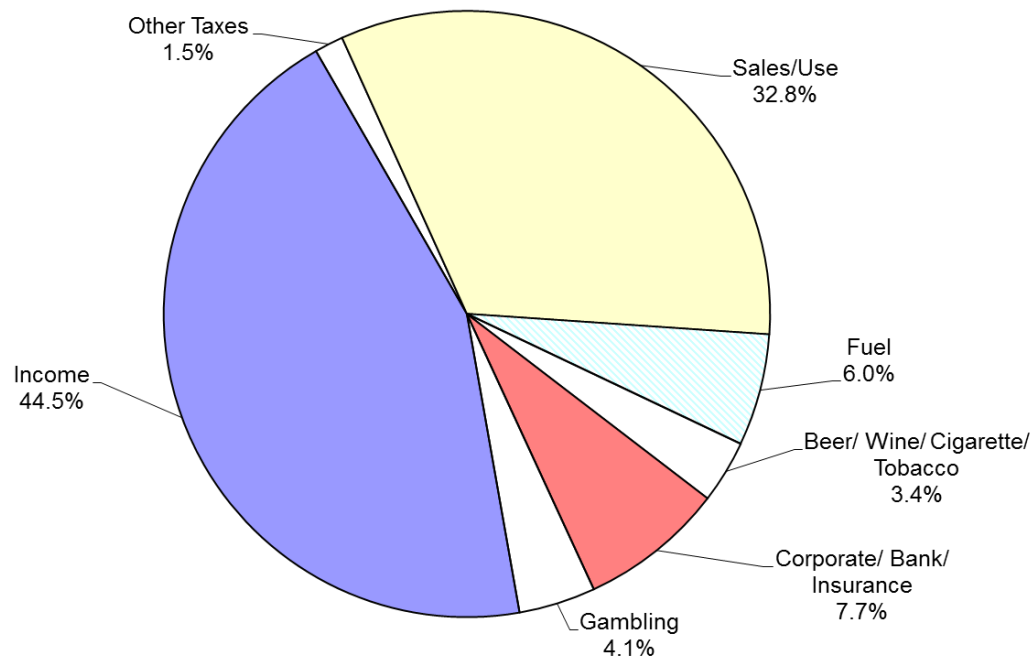
The average reading for Iowa nonfarm employment over the 12 months ending January 2012 is 1,510,100 and net State tax receipts over the same 12 months totaled \$7.296 billion, or \$4,832 per nonfarm job. This is \$1,047 higher than the per-job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red line on the graph adjusts the June 2005 net tax revenue per job for inflation, and indicates inflation-adjusted tax revenue per job has increased since June 2005 by \$329 and the remainder of the \$1,047 increase represents the impact of inflation.



Net State Tax Revenue - Twelve Months Ending February 2013

Net Revenue = \$7.344 Billion

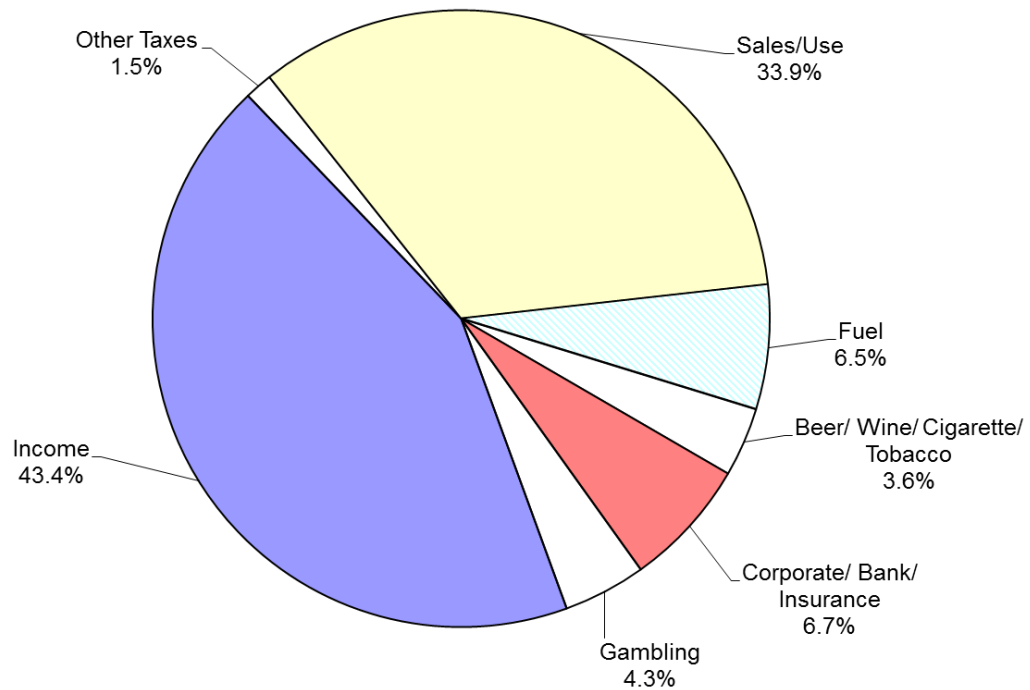
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending February 2012

Net Revenue = \$6.740 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of February 2012	Month of February 2013	February \$ Change	February % Change
Banking	\$ 33.0	\$ 31.5	\$ - 1.5	-4.5%	\$ 0.9	\$ 0.5	\$ - 0.4	-44.4%
Beer & Wine	21.7	22.1	0.4	1.8%	1.4	1.5	0.1	7.1%
Cigarette & Tobacco	222.5	224.5	2.0	0.9%	15.0	11.5	- 3.5	-23.3%
Corporate Income	326.7	433.3	106.6	32.6%	18.1	13.1	- 5.0	-27.6%
Fuel	439.8	438.6	- 1.2	-0.3%	33.0	32.8	- 0.2	-0.6%
Gambling	292.0	301.0	9.0	3.1%	25.9	27.2	1.3	5.0%
Individual Income	2,926.1	3,266.8	340.7	11.6%	154.4	196.6	42.2	27.3%
Inheritance	73.6	83.9	10.3	14.0%	4.9	6.9	2.0	40.8%
Insurance	94.3	101.8	7.5	8.0%	1.6	1.4	- 0.2	-12.5%
Other Taxes	10.5	9.7	- 0.8	-7.6%	0.0	- 0.1	- 0.1	--
Real Estate Transfer	14.7	19.2	4.5	30.6%	1.3	1.2	- 0.1	-7.7%
Sales/Use	2,285.1	2,411.3	126.2	5.5%	283.3	294.4	11.1	3.9%
Total Net Taxes	\$ 6,740.0	\$ 7,343.7	\$ 603.7	9.0%	\$ 539.8	\$ 587.0	\$ 47.2	8.7%
Gross Tax & Refunds								
Gross Tax	\$ 8,054.2	\$ 8,581.5	\$ 527.3	6.5%	\$ 749.3	\$ 788.2	\$ 38.9	5.2%
Tax Refunds	\$ - 1,314.2	\$ - 1,237.9	\$ 76.3	-5.8%	\$ - 209.5	\$ - 201.2	\$ 8.3	-4.0%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,647.7	\$ 6,198.2	\$ 550.5	9.7%	\$ 454.7	\$ 497.7	\$ 43.0	9.5%
Road Use Tax Fund	\$ 738.1	\$ 756.9	\$ 18.8	2.5%	\$ 58.6	\$ 61.5	\$ 2.9	4.9%
Non-GF Gambling	\$ 222.6	\$ 258.2	\$ 35.6	16.0%	\$ 25.7	\$ 27.0	\$ 1.3	5.1%
Other State Funds	\$ 131.6	\$ 130.2	\$ - 1.4	-1.1%	\$ 0.8	\$ 0.8	\$ 0.0	0.0%
Local Option Taxes *	\$ 847.8	\$ 856.9	\$ 9.1	1.1%	\$ 72.6	\$ 67.9	\$ - 4.7	-6.5%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

Tax Categories Used in Table

Franchise (Bank) Tax: The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bonds Subsidy Holdback Fund, and the Revenue Bonds Debt Service Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% by FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.